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TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Date: JAN 23 2004

Contact Person:

Identification Number:

Contact Number:

UIL: 501.00-00

Employer Identification Number:

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You were incorporated in the state of on . You are designed as an educational organization that links non- and for-profit entrepreneurs to investors, educators, and institutions. You will help entrepreneurs receive the support they need to build their enterprises and easily and affordably connect with potential mentors and partners. You will offer volunteer mentors and advisory services to validate and accelerate concepts and plans, and increased access to large corporations, investors and public sector organizations through institutional partnering programs.

Institutions will benefit from easy access to clear and consistent information on potential enterprise investment, partnering and procurement opportunities and research and analysis. You will offer online tools to allow entrepreneurs to affordably access and collaborate with qualified volunteer mentors, experts and institutional partners.

You have categorized your activities into five areas: Membership (20%); Educational forums (25%); Research (15%); Advisory (20%); Mentoring Services (5%) and Partnering Services (15%).

Membership: You will offer individual and organizational memberships. The purpose of which is to expand the community of individuals and organizations that support your mission.

Educational: You will provide (i) network forums to hear speakers and interact with peers and experts from various fields; (ii) newsletters for the latest trends and developments in new technologies and enterprises; (iii) university programs; (iv) case studies and best practices exercises; and (v) online discussion groups.

Research: You will conduct research in various fields to develop reports, articles, cases and best practices. The results of your research will support your educational purposes.

Advisory: You will advise both non- and for-profit organizations develop business plans, finance, marketing and partnering strategies.

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Mentoring Services: You are developing a network of skilled volunteer mentors to share ideas and assist entrepreneurs improve concepts and plans.

Partnering Services: You will offer corporations, government agencies, universities, investment firms and other institutions a variety of services designed to build the capacity to support new companies that tackle global challenges.

You will charge for memberships, educational forums, research reports, advisory services, and partnering programs. Mentoring support will be free of charge to social entrepreneurs.

Your Board of Directors and Officers consist of:

Director, President
Director, Treasurer and Secretary

It is anticipated that _____ will receive \$ _____ compensation for the first year and \$ _____ for the second year of operation.

Section 501(c)(3) of the Code exempts from federal income tax corporations organized and operated exclusively for, among others, charitable and educational purposes.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations states that, in order to be exempt as an organization described in section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes satisfied in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(c)(2) of the regulations provides an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Section 1.501(a)-(1)(c) of the regulations defines "private shareholder or individual" to mean persons having a personal and private interest in the activities of the organization.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, to meet the requirements of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term "charitable" is used in its generally accepted legal sense and includes, among other things, relief of the poor and distressed or of the underprivileged and the promotion of the social welfare by organizations designed to accomplish any

of the above purposes, or to (i) lessen neighborhood tensions, (ii) eliminate prejudice and discrimination, (iii) defend human and civil rights secured by law, or (iv) combat community deterioration and juvenile delinquency.

Section 1.501(c)(3)-1(d)(3)(i) of the regulations provides that the term "educational" relates to the instruction or training of the individual for the purpose of improving his capabilities or the instruction of the public on subjects useful to the individual and beneficial to the community.

Rev. Rul. 72-369, 1972-2 C.B. 245, explains that providing managerial and consulting services on a regular basis for a fee is trade or business ordinarily carried on for profit. The organization entered into agreements with unrelated nonprofit organizations to furnish managerial and consulting services on a cost basis. The services consisted of writing job descriptions, and training manuals, recruiting personnel, constructing organizational charts, and advising organizations on specific methods of operation. The fact that the services are provided at cost and solely for exempt organizations is not sufficient to characterize the activity as charitable within the meaning of section 501(c)(3) of the Code. Furnishing the services at cost lacks the donative element necessary to establish the activity as charitable.

Rev. Rul. 74-587, 1974-2 C.B. 162, held that the provision of loans to businesses located in a depressed area may accomplish charitable goals. Loan recipients were selected on the basis of their location on a depressed area, their ability to provide employment services, and their inability to qualify for conventional assistance due to the prospective location of their businesses or their minority status. The benefits derived by these private parties were deemed to be insignificant compared with the direct, tangible and somewhat measurable benefits conferred on the public in general.

In Better Business Bureau of Washington, D.C., Inc. v. United States, 326 U.S. 279 (1945), the requirement in section 501(c)(3) that an organization be organized and operated "exclusively" for exempt purposes has been recognized as meaning that the organization have its "primary" activity in the performance of exempt functions. The Court further held that the presence of a single non-exempt purpose, if substantial in nature, will destroy a claim for exemption regardless of the number or importance of truly exempt purposes.

Operating for the benefit of private parties constitutes a substantial nonexempt purpose. Old Dominion Box Co. v. United States, 477 F. 2d 340 (4th Cir. 1973), cert. denied 413 U.S. 910 (1973).

In determining whether an organization is operated for a public benefit rather than a private benefit, a court may consider the size of the board of directors and their control of the organization. Western Catholic Church v. Comm., 73 T.C. 196 (1979).

Section 501(c)(3) of the Code sets forth two main tests for qualification for exempt status. An organization must be both organized and operated exclusively for purposes described in section 501(c)(3). Your Articles of Incorporation are sufficient for satisfaction of the organizational test.

You, however, do not satisfy the operational test. You do not operate exclusively for one or more exempt purposes. You are an organization that carries on a business with the general public in a manner similar to organizations that are operated for profit.

Your primary activity consists of linking non- and for-profit entrepreneurs to investors, educators, and institutions. You help entrepreneurs find the resources they need to build enterprises, i.e., connecting them with potential partners. You also provide business plans,

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finance, marketing and partnering strategies. All of your programs and services, with the exception of mentoring support, will be related to the cost of services provided.

Unlike Rev. Rul. 74-587, your resources are not devoted to uses that benefit the community in a way that the law regards as charitable. Your services will link non- and for-profit organizations. There is no indication that these organizations will be selected on the basis that of their goal to (i) lessen neighborhood tensions, (ii) eliminate prejudice and discrimination, (iii) defend human and civil rights secured by law, or (iv) combat community deterioration and juvenile delinquency.

Similar to Rev. Rul. 72-369, you provide business plans, finance, marketing and partnering strategies at a cost that can be categorized as consulting services. Providing this service for a fee is a trade or business ordinarily carried on for profit. Furnishing the service at cost lacks the donative element necessary to establish this activity as charitable.

Moreover, you operate for the benefit of private interests of designated individuals, or the creator. Your Form 1023 application indicates that for fiscal year _____ to _____ you anticipate approximately _____ % of your revenue (\$ _____) from educational forums, seminars, advisor services and research, while approximately _____ % of your expenses will go to the compensation of officers.

The proposed budget for the subsequent two years indicates that approximately _____ % and _____ % of your revenue will come from the educational forums, seminars, advisor services and research, respectively. Compensation of officers and others will encompass approximately _____ % of your expenses for both years.

You violate section 6 of your by-laws, adopted on _____ by your Board members. Section 6 states that not more than _____ % of the persons serving on the board may be interested persons. It defines an interested person as any person currently being compensated by the organization for services rendered within the previous 12 months. Currently you only have _____ Board members, one of which is being compensated for fiscal year _____ to _____. Thus _____ % of your Board is interested persons.

As indicated in Old Dominion Box Co., supra, operating for the benefit of private parties constitutes a substantial nonexempt purpose. You cannot satisfy the basic requirements for exemption, in that you fail the operational test. You are operated for private rather than public purposes within the meaning of section 1.501(c)(3)-1(d)(1)(ii) of the regulations.

Because you are not operated for an exempt purpose, and your activities serve private interests to a substantial degree, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code and you must file federal income tax returns.

Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views to this office, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if

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you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and a copy will be forwarded to the Ohio Tax Exempt and Government Entities (TE/GE) office. Thereafter, any questions about your federal income tax status should be directed to that office, either by calling 877-829-5500 (a toll free number) or sending correspondence to: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service
T:EO:RA:T:4
1111 Constitution Ave, N.W.
Washington, D.C. 20224

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

-S-

Joseph Chasin
Acting Manager, Exempt Organizations
Technical Group 4